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C O N F I D E N T I A L SECTION 01 OF 02 ROME 001805

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SUBJECT: IRAQ: ITALY LIKELY TO DISPERSE E30 MILLION OF
MADRID PLEDGE IN 2004

REF: ROME 355

CLASSIFIED BY: ECONOMIC MINISTER-COUNSELOR SCOTT F. KILNER, FOR REASONS
1.5(B)(D).

11. (C) SUMMARY: GIANNI GHISI, DEPUTY DIRECTOR GENERAL OF DEVELOPMENT COOPERATION AT THE MFA, TOLD ECONOFFS THAT ITALY WILL DISBURSE EURO 30 MILLION OF ITS EURO 200 MILLION MADRID PLEDGE IN 2004. EURO 10 MILLION WILL GO TO THE INTERNATIONAL RECONSTRUCTION FUND FACILITY, WHILE THE REMAINING 20 MILLION WILL GO TO IRAQ IN THE FORM OF A BILATERAL SOFT LOAN. ITALY IS CLEARLY FAVORING SOFT LOANS OVER GRANTS AS THE BULK OF ITS MADRID CONTRIBUTION, ACCORDING TO GHISI. THE GOI, HE SAID, MIGHT NOT BE ABLE TO DISTRIBUTE THE ENTIRE AMOUNT WITHIN THE THREE-YEAR SCHEDULE. END SUMMARY.

EURO 10 MILLION FOR FUND FACILITY

12. (C) ECONOFFS SPOKE RECENTLY WITH GIANNI GHISI, MFA DEPUTY DIRECTOR GENERAL OF DEVELOPMENT COOPERATION, ABOUT THE LIKELY STRUCTURE OF THE 2004 DISTRIBUTION OF ITALY'S EURO 200 MILLION MADRID PLEDGE. GHISI SAID THAT THE GOI HAS DECIDED TO DISPERSE APPROXIMATELY EURO 30 MILLION OF ITS MADRID PLEDGE IN 2004. ITALY, HE SAID, WILL GIVE EURO 10 MILLION TO THE UN/WORLD BANK INTERNATIONAL RECONSTRUCTION FUND FACILITY, ENOUGH TO GIVE ITALY A SEAT ON THE FACILITY DONOR'S COMMITTEE.

13. (C) THE GOI WILL ASK THAT THE UN PORTION OF ITS DONATION TO THE FACILITY BE CHanneled TO THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO). IN GENERAL, GHISI SAID, THE GOI WANTS TO FOCUS ITS IRAQ ASSISTANCE ON INDUSTRIAL REHABILITATION AND PRIVATE-SECTOR DEVELOPMENT. ITALY, HE SAID, HAS GOOD EXPERIENCE IN SMALL AND MEDIUM BUSINESS DEVELOPMENT AND THIS EXPERIENCE WILL BE ONE OF THE THEMES OF ITALY'S CONTRIBUTION TO IRAQ RECONSTRUCTION.

ANOTHER EURO 20 MILLION AS SOFT LOAN

14. (C) IN ADDITION TO THE EURO 10 MILLION DONATION TO THE FACILITY, GHISI ADDED, THE GOI WILL OFFER A EURO 20 MILLION SOFT LOAN TO IRAQ. THE GOI IS PRESENTLY TRYING TO DETERMINE WHETHER THE PROVISIONAL IRAQI GOVERNMENT WILL ACCEPT SUCH A SOFT LOAN. DUE TO RESTRICTIONS IN ITALIAN LAWS, THE MFA MAY HAVE TO WAIT UNTIL AFTER THE JUNE 30 HANDOVER OF SOVEREIGNTY BEFORE ISSUING THE LOAN, HE EXPLAINED. GHISI DESCRIBED THE TERMS OF THE PROPOSED LOAN AS "VERY SOFT" WITH A 20-YEAR GRACE PERIOD ON REPAYMENTS.

15. (C) GHISI SAID THE SALARIES AND OTHER COSTS ASSOCIATED WITH THE ITALIAN CIVILIAN EXPERTS WORKING IN THE CPA (CURRENTLY NUMBERING AROUND 40) WOULD NOT/NOT BE COUNTED AS PART OF THE MADRID DONATION.

MADRID PLEDGE MAY STRETCH TO FOUR YEARS

16. (C) ITALY, GHISI REMARKED, MUST GIVE THE BULK OF THIS YEAR'S TRANCHE IN THE FORM OF A SOFT LOAN BECAUSE OF BUDGET CONSTRAINTS AND PRE-EXISTING AID COMMITMENTS. HE SAID NO DECISION HAS BEEN MADE ON THE SIZE OF THE 2005 TRANCHE, BUT INDICATED THAT SOFT LOANS WILL REMAIN THE PREFERRED VEHICLE FOR FULFILLING ITALY'S MADRID PLEDGE. GHISI EXPRESSED A HOPE THAT THE GOI WILL PASS A SPECIAL BUDGET FOR IRAQ AID, SIMILAR TO A SPECIAL BUDGET CREATED PREVIOUSLY FOR THE BALKANS, TO RELIEVE THE STRAIN ON MFA RESOURCES. GHISI ADDED THAT WHILE THE GOI REMAINS OFFICIALLY COMMITTED TO DISPERSING THE ENTIRE EURO 200 MILLION WITHIN THREE YEARS, THIS TIME FRAME IS PROBABLY UNREALISTIC AND THE DISPERSAL WILL LIKELY TAKE FOUR YEARS.

17. (C) AMONG THE VARIOUS PROJECTS ITALY HAS PROPOSED FOR IRAQ (REFTEL), THE BUKHME DAM PROJECT WAS THE MOST LIKELY TO GO FORWARD, GHISI SAID. GHISI EXPLAINED THAT PART OF ITALY'S MADRID PLEDGE WILL GO TO FUNDING A FEASIBILITY STUDY FOR THE BUKHME DAM PROJECT. (NOTE: TELECOM ITALIA'S MED/NAUTILUS PROJECT TO LINK IRAQ TO ITS INTERNATIONAL FIBER OPTIC BACKBONE APPEARS UNLIKE TO WIN APPROVAL FROM IRAQI AUTHORITIES BECAUSE IT WOULD MAKE THE CONNECTION VIA ISRAEL.

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L-FOR-FOOD PROGRAM USING SMART
CARD TECHNOLOGY ALSO SEEMS UNLIKELY TO BE IMPLEMENTED. END
NOTE.)

COMMENT

18. (C) WHILE GHISI APPEARED CONFIDENT THAT ITALY WILL
DISPERSE ITS ENTIRE MADRID PLEDGE, THERE IS STILL
CONSIDERABLE UNCERTAINTY ABOUT THE TIME FRAME AND THE RATIO
OF LOANS TO GRANTS (WITH LOANS THE CLEAR FAVORITE). SO LONG
AS ITALY LACKS A SPECIAL BUDGET FOR IRAQ ASSISTANCE, AND THE
MFA AND OTHER AGENCIES ARE FORCED TO SCRAPE MONEY TOGETHER IN
AN AD-HOC FASHION, ITALY MAY BE VERY SLOW IN DISTRIBUTING THE
ENTIRE EURO 200 MILLION. END COMMENT.

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